

## Message Text

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PAGE 01 MEXICO 10612 01 OF 02 251549Z

ACTION ARA-14

INFO OCT-01 ISO-00 EB-07 COME-00 TRSE-00 OMB-01 XMB-02

FRB-03 CIAE-00 INR-07 NSAE-00 AID-05 IGA-02

OPIC-03 SS-15 SP-02 L-03 NSC-05 EPG-02 /072 W

-----088267 251602Z /41

R 251544Z JUN 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 3124

INFO AMCONSUL MONTERREY

LIMITED OFFICIAL USE SECTION 01 OF 02 MEXICO 10612

STATE PASS USDOC, EXIMBANK

E.O. 11652:N/A

TAGS: EMIN, BBAK, MX

SUBJECT: MORE ON REACTION TO FUNDIDORA MONTERREY  
MANAGEMENT CHANGE

REF: A)MEXICO 9821, B) STATE 141511

SUMMARY. GENERAL REACTION TO GOM TAKEOVER OF FUNDIDORA MONTERREY WAS ONE OF CALM ACCEPTANCE. EMBASSY BELIEVES MOVE WILL HAVE LITTLE EFFECT ON RELATIONSHIP OF PRIVATE SECTOR WITH LOPEZ PORTILLO ADMINISTRATION, OTHER THAN TO REINFORCE BELIEF THAT IF IMPORTANT COMPANY GETS TOO DEEPLY INTO DEBT, GOM WILL BAIL IT OUT. END SUMMARY.

1. REFTEL (B) ASKS FOR REPORTING ANALYSIS OF REACTION OF PRIVATE SECTOR TO FORMAL GOM TAKEOVER OF FUNDIDORA MONTERREY. OUR ANALYSIS AND THAT OF AMCONGEN MONTERREY, IS THAT IT IS BASICALLY ONE OF GENERAL CALM ACCEPTANCE OF FAIT ACCOMPLI. EVEN BEFORE DEVALUATION, PRIVATE SECTOR HAD REGARDED FUNDIDORA'S FINANCIAL PROBLEMS AS INSOLUBLE WITHOUT GOVERNMENT HELP. SOURCES BOTH INSIDE  
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PAGE 02 MEXICO 10612 01 OF 02 251549Z

AND OUTSIDE STEEL INDUSTRY REPORT THAT PRIVATE MEXICAN FINANCIAL INTERESTS WERE GIVEN OPPORTUNITY TO INVEST IN FUNDIDORA LATE IN ECHEVERRIA ADMINISTRATION AND TURNED IT DOWN. THEREFORE, ONLY ALTERNATIVE TO GOVERNMENT'S ASSUMING GREATER SHARE OF EQUITY IN FUNDIDORA WAS BANKRUPTCY, WHICH WAS VIEWED AS HIGHLY UNDESIRABLE. THREE FACTORS CONTRIBUTED TO TAKEOVER AT THIS TIME. FIRST, GOM

HAD ACQUIRED 44 PERCENT OF EQUITY LAST FALL THROUGH PURCHASE OF NEW PREFERRED STOCK ISSUE. SECOND, ON-GOING STRIKE AT FUNDIDORA WAS ADDING TO FINANCIAL BURDEN OF COMPANY, AND THIRD, GOM WAS READY TO TAKE FIRST STEP TOWARD PLANNED MERGER OF THE THREE PARASTATAL STEEL COMPANIES. THESE DEVELOPMENTS HAVE RECEIVED CONSIDERABLE LIMITED OFFICIAL USE

PUBLICITY. THEREFORE, BUSINESS COMMUNITY WAS WELL PRIMED FOR FORMAL TAKEOVER OF FUNDIDORA'S ADMINISTRATION BY GOM. APPOINTMENTS OF PATRIMONY AND INDUSTRIAL DEVELOPMENT SECRETARY JOSE ANDRES DE OTEYZA AND HIS UNDERSECRETARY FOR IRON AND STEEL AND NON-RENEWABLE RESOURCES JORGE LEIPEN GARAY AS NUMBERS ONE AND TWO ON BOARD OF DIRECTORS WAS NEITHER SURPRISING NOR UNEXPECTED, ACCORDING TO MOST SOURCES. HOWEVER, MOVE WAS MORE WELCOME TO SOME THAN TO OTHERS. ONE PROMINENT END USER OF STEEL STATED THAT HE BELIEVED FUNDIDORA HAD BEEN POORLY MANAGED AND THAT APPOINTMENT OF GOM DIRECTORS COUPLED WITH MERGER WITH ALTOS HORNOS AND SICARTSA WOULD BRING GREATER DEGREE OF ORDER TO CHAOTIC SITUATION. AT THE OTHER EXTREME, ANOTHER STEEL INDUSTRY CONTACT EXPRESSED DISMAY OVER MOVE BY STATING THAT WITH NEW LEVERAGE, GOM WOULD BE ABLE TO EXERT GREATER PRESSURE ON PRIVATELY HELD FIRMS.

22N FURTHERANCE OF MERGER MENTIONED ABOVE, IT WAS ANNOUNCED LIMITED OFFICIAL USE

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PAGE 03 MEXICO 10612 01 OF 02 251549Z

AT SICARTSA DIRECTORS' MEETING OF JUNE 19 THAT LEIPEN GARAY HAD BEEN NAMED VICE CHAIRMAN OF BOARD OF SICARTSA. AS REPORTED EARLIER, HE ALREADY HOLDS SAME POSITION ON BOARDS OF FUNDIDORA AND ALTOS HORNOS. ACCORDING TO PRESS REPORT, LEIPEN GARAY HAS BEEN CHARGED WITH COORDINATING THE THREE PARASTATAL STEEL COMPANIES TO BRING ABOUT THEIR "OPTIMAL FUNCTIONING". REASON GIVEN FOR THIS CONSOLIDATION AT EXECUTIVE LEVEL ON THE BOARDS OF FUNDIDORA, ALTOS HORNOS AND SICARTSA IS TO FACILITATE COORDINATION, PRODUCTION, AND MARKETING, THE LATTER BOTH DOMESTICALLY AND ABROAD. FOR TIME BEING, FUNDIDORA WILL CONTINUE ITS OWN MARKETING OPERATION BUT SICARTSA WILL TURN THAT FUNCTION OVER TO AVIOS DE ACERO, DISTRIBUTING ARM OF ALTOS HORNOS.

3. DE OTEYZA STATED AT THE SICARTSA MEETING THAT ALTOS HORNOS, SICARTSA, AND FUNDIDORA WOULD MAINTAIN THEIR CORPORATE IDENTITIES WITH AUTONOMOUS ADMINISTRATIVE BODIES WHICH WOULD REPORT TO LEIPEN GARAY.

4. COMMENT: WE DO NOT ENVISAGE THAT RELATIONSHIP OF PRIVATE SECTOR TO LOPEZ PORTILLO ADMINISTRATION WILL BE

AFFECTED IN ANY WAY OTHER THAN TO REINFORCE THE EXPECTA-  
TION OF MEXICAN BUSINESSMEN THAT IF A LARGE AND IMPORTANT  
ENTERPRISE GETS INTO TROUBLE, IT WILL EVENTUALLY BE  
RESCUED BY GOVERNMENT TO SAVE INTERNATIONAL CREDIT  
REPUTATIONS AND JOBS. IT IS A MEASURE OF TRUST IN LOPEZ  
PORTILLO THAT PRIVATE SECTOR HAS NOT REACTED MORE STRONGLY.  
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HAD ECHEVERRIA ADMINISTRATION ATTEMPTED TO TAKE OVER  
FUNDIDORA MONTERREY, A GENERAL OUTCRY WOULD PROBABLY

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PAGE 01 MEXICO 10612 02 OF 02 251550Z  
ACTION ARA-14

INFO OCT-01 ISO-00 EB-07 COME-00 TRSE-00 OMB-01 XMB-02  
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-----088286 251603Z /41

R 251544Z JUN 77  
FM AMEMBASSY MEXICO  
TO SECSTATE WASHDC 3125  
INFO AMCONSUL MONTERREY

LIMITED OFFICIAL USE SECTION 02 OF 02 MEXICO 10612

HAVE ARISEN. THOMPSON.

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## Message Attributes

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